GOVERNMENT OF INDIA
DEFENCE
LOK SABHA

STARRED QUESTION NO:120
ANSWERED ON:07.03.2002
PRIVATE PARTICIPATION IN DEFENCE SECTOR
BHARTRUHARI MAHTAB

Will the Minister of DEFENCE be pleased to state:

(b) whether private companies are being encouraged to be partners of different Defence sector strategic organizations;

(c) if so, the details thereof;

(d) whether the Hindustan Aeronautics Limited (HAL) has offered upto 25 per cent of its value addition works to out-sources;

(e) if so, the terms and conditions thereof;

(f) whether agreements and contracts in this regard have been signed at the Government level; and

(g) if so, the details thereof?

Answer

MINISTER OF DEFENCE (SHRI GEORGE FERNANDES)

(a) to (f): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (f) OF LOK SABHA STARRED QUESTION NO. 120 FOR 7.3.2002

The Defence industry sector has been opened for participation by Indian Private Sector upto 100% of equity with Foreign Direct Investment (FDI), component of it being permissible upto 26%, both being subject to licensing permissions.This includes all types of defence equipment. Guidelines have been issued by the Department of Industrial Policy and Promotion in consultation with the Ministry of Defence regarding the modalities for consideration of applications for grant of licence. The private companies are allowed to apply either individually or by a partnership firm amongst themselves. The Chief Executive of the company/partnership will be a resident Indian. The company/partnership firm can have Foreign Direct Investment upto 26% of the equity. Preference would be given to original equipment manufacturers or design establishments and those having a good track record of supplies. However, there would be a three year lock in period for transfer of equity from one foreign investor to another foreign investor and such transfer would be subject to prior approval of the Foreign Investment Promotion Board (FIPB) and the Government.

(h) All applications from the private entrepreneurs will be considered by the Department of Industrial Policy and Promotion in consultation with the Ministry of Defence and the licences would be granted by the Department of Industrial Policy and Promotion.The licensees are required to put in place adequate safety and security procedures which would be subject to verification by authorized Government agencies. The quality of the product will be assured by the Quality Assurance Agencies of the Ministry of Defence.

(i) Hindustan Aeronautics Limited (HAL), one of the Defence Public Sector Undertakings, are making effort to increase the level of out-sourcing progressively up to 20% of its value addition by end of the 10th Plan. However, no formal offer has been made by the HAL to off-load 25% of the workload to the private industry. The major areas of out-sourcing by HAL are in the manufacture of tooling items and components for airframe, engines and accessories. No agreement/contract has been signed at the Government level regarding out-sourcing by M/s. HAL from private industry.